

IV. ECONOMIC COLLABORATION

The maintenance of apartheid in South Africa is closely linked to a diversified and expanding economy. Such an economy strengthens the loyalty of the white minority to the political *status quo*, may co-opt a small black minority who see economic prosperity as a more realizable goal than political rights, and provides the State with the products and technology needed to sustain itself in power.

An estimated R40 billion in foreign capital is involved in the South African economy.⁵⁴ The South African Reserve Bank reported last year that "The South African economy has always been dependent on foreign capital as a means of supplementing domestic savings, with a view to maintaining a high rate of real economic growth."⁵⁵

It is in the area of indirect investment, and particularly in the provision of bank loans, that the apartheid regime is most dependent on foreign support today. In the last ten years, South Africa's indirect liabilities have increased at a faster rate than foreign direct liabilities.⁵⁶ Most of the increase in foreign indirect liabilities, and particularly the increase in South Africa's bank borrowings overseas, has come as a result of the Government's ambitious public sector development programme.

The South African Government has sponsored an enormous publicly-financed industrial expansion and self-sufficiency drive in the past twenty years. The programme is designed to provide a strong industrial base within South Africa and also to develop the regime's self-sufficiency, so that it will be able to withstand the threat of international sanctions. South Africa's most serious vulnerability is the result of its lack of domestic oil. The Government has poured billions of dollars into developing expensive and inefficient oil-from-coal facilities to reduce its dependency on oil imports. (As of 1982, all oil exporting nations banned exports of their petroleum to South Africa). The regime has spent billions of dollars developing domestic chemical and electrical industries for similar reasons.

Such development is extremely costly. South African Finance Minister Owen Horwood recently estimated that public sector capital expenditures over the next couple of years would average between R 8 and R 9 billion a year.⁵⁷

⁵⁴ *The Star*, Johannesburg, 12 March 1984.

⁵⁵ Van der Merwe, E.J. and Bester, M. C., "South Africa's Foreign Liabilities and Assets, 1956 to 1981," *Quarterly Bulletin*, South African Reserve Bank, No. 148, June 1983.

⁵⁶ *Ibid.*

⁵⁷ *The Star*, Johannesburg, 12 March 1984.

Much of the money for these public sector programmes has been provided by foreign bank loans, and Horwood reported that public sector corporations will need to continue to borrow on foreign capital markets in the foreseeable future in order to avoid draining domestic capital reserves and inhibiting private sector growth.⁵⁸

In another measure of the importance of foreign links, the President of the South Africa Foundation, Ted Pavitt, reported in March that South Africa depended on foreign trade for its very “survival.”⁵⁹ Imports and exports amounted to 60 per cent of gross domestic product, he reported, while comparative figures for the United States were between 15 and 18 per cent.⁶⁰

The American Role

One vital form that American support for South Africa takes, is in this area of economic collaboration. In contrast to earlier Administrations, under President Reagan the United States has moved to actively encourage American economic ties with South Africa. American banks have been major lenders to the apartheid regime, and the United States Federal Reserve reports that, as of June 1983, United States banks had over \$3.883 billion worth of loans outstanding to South African based entities.⁶¹ In addition, direct American corporate investment totals some \$2.6 billion, and American shareholders own an additional \$8 billion worth of stock listed on the Johannesburg Stock Exchange.⁶²

While it is difficult to measure precisely, this puts total United States financial involvement in South Africa as high as \$14 billion.⁶³ Measuring just direct investment, United States financial involvement has grown at astounding rates in the last fourteen years, more than tripling in value.⁶⁴

The raw dollar figures for United States economic collaboration with South Africa do not, however, tell the full story. American capital and technology has

⁵⁸ *Ibid.*

⁵⁹ *The Star*, Johannesburg, 19 March 1984.

⁶⁰ *Ibid.*

⁶¹ Federal Financial Institutions Examination Council, *Statistical Release*, E.16 (126), 17 November 1983.

⁶² *U.S. Survey of Current Business*, August 1983; *Nation*, New York, 3-10 September 1983.

⁶³ *Multinational Monitor*, December 1983.

⁶⁴ *U.S. Survey of Current Business*, August 1983; Seidman, Ann and Neva, *South Africa and United States Multinational Corporations*, Lawrence Hill and Co., 1978.

been especially important in the development of certain key sectors of the South African economy.⁶⁵ For instance, American investment in manufacturing industries accounts for almost 10 per cent of the fixed capital stock in that sector of the economy. Forty-two per cent of United States direct investment is in the manufacturing sector, with American companies having substantial involvement in automobiles, chemicals and machinery.⁶⁶ The other sector where American involvement is very large is energy. The area of greatest expansion of United States direct involvement has been in the chemical sector, where the United States dollar value of direct investment doubled between 1978 and 1981.⁶⁷

Investments from the Americas in general, of which United States investments make up well over 90 per cent, have become increasingly important to the South African economy in the last ten years. Nedbank reports that “from providing nearly 18 per cent of South Africa’s capital needs in 1973, the share of North and South America[n capital] rose to nearly 24 per cent in 1981.”⁶⁸ And other reports have indicated a similar rise in the importance of American capital.

Nowhere has this increase in the importance of American capital been more evident than in the area of bank lending. In the past five years, American banks have been involved in a wide array of loans to South Africa, from financing private industries and universities, to providing material for State-owned corporations and even, reportedly, participating in direct loans to the Government.⁶⁹ Between June 1982 and June 1983, United States bank loans to South Africa increased by over \$200 million, to \$3.883 billion.⁷⁰

Bank loans are also likely to be an area of increased involvement in the near future. South Africa’s total foreign borrowings in 1983 were more than R3.5 billion and, as mentioned above, the Government has indicated that public sector corporations will need to borrow between R8 and R9 billion each year for the next few years.⁷¹ American banks are sure to play a role in this borrowing. Just this past March, the South African Government floated a R40 million bond issue on the Luxembourg Stock Exchange, which reportedly received a favourable

⁶⁵ For more information on US economic support, see Seidman, *op. cit.*

⁶⁶ *U.S. Survey of Current Business*, August 1983.

⁶⁷ *U.S. Survey of Current Business*, August 1979 and August 1982.

⁶⁸ *South Africa: An Appraisal*, Second Edition, Nedbank, June 1983.

⁶⁹ Klein, Beate, “Bricks in the wall,” *Notes and Documents*, 15/81; “Bank Loans to South Africa: 1979-mid 1982,” *Notes and Documents*, October 1982, United Nations Centre against Apartheid.

⁷⁰ Federal Financial Institutions Examination Council, *Statistical Release*, E.16 (126), 6 December 1982 and 17 November 1983.

⁷¹ *The Star*, Johannesburg, 12 March 1984.

reception.⁷² That bond issue was managed by a French bank and included participation by Belgian, British and American banks.⁷³ South Africa is also expected to float another bond issue, this time denominated in dollars, in the near future on European currency markets.⁷⁴

American involvement in the South African economy is not limited to direct and indirect investments. United States corporations, through licensing and franchise agreements, provide the South African economy with critical technology and know-how, and the United States is now South Africa's largest trading partner. In 1981, South African imports from the United States accounted for over 19 per cent of South Africa's total imports, while the United States was the main market for almost 15 per cent of South Africa's exports.⁷⁵

Technology

Without critical technology provided by American corporations, the South African economy would have been severely constrained. According to a study by the United States State Department, cited in a recent report by the American Friends Service Committee, foreign technology could cripple South Africa."⁷⁶

South African government officials often talk of the development of a domestic manufacturing capability, but despite years of efforts South Africa is still dependent on foreign corporations and their technology in a number of key sectors.

For instance, although the government requires that 60 per cent by weight of each automobile sold in South Africa be of locally manufactured components, over 50 per cent of the value of each car is still imported.⁷⁷ Sixty five per cent of the value of each locomotive General Motors makes in South Africa is still imported.⁷⁸

In other sectors, dependence on foreign technology is even greater. South Africa still has virtually no domestic computer manufacturing capability and, in

⁷² *Financial Mail*, Johannesburg, 9 March 1984.

⁷³ Tombstone Ad in *The Economist*, 14 April 1984.

⁷⁴ *Financial Mail*, Johannesburg, 9 March 1984.

⁷⁵ *Financial Mail*, Johannesburg, 11 November 1983.

⁷⁶ *Automating Apartheid: U.S. Computer Exports to South Africa and the Arms Embargo*, NARMIC/American Friends Service Committee, 1982, p.9.

⁷⁷ *Financial Times*, 12 January 1982.

⁷⁸ *Transnational Corporations with Major Investments in South Africa*, UN Special Committee against Apartheid document A/AC.115/L.574, 3 September 1982.

1980, United States-controlled companies accounted for 75 per cent of all computer sales in South Africa.⁷⁹

Energy and Oil

Perhaps the most important collaboration between United States and South African interests is in the energy sector. Energy companies account for almost thirty per cent of the dollar value of United States direct investment in South Africa.

South Africa has not discovered any commercially exploitable petroleum deposits within its own borders and, although the regime meets many of its domestic energy needs from its substantial coal reserves, it remains dependent on liquid hydrocarbons for about one-quarter of its energy needs.⁸⁰

South Africa requires an estimated 320,000 to 400,000 barrels of crude oil per day, which the Government must obtain on the international petroleum markets despite an official oil embargo by all the OPEC countries and most other non-OPEC producers.⁸¹ There is a great deal of speculation as to how South Africa obtains its petroleum supplies, but many observers believe oil is purchased through elaborate networks of front companies, and at higher-than-market prices on the international spot market. A government operated body, the Strategic Fuel Fund, appears to be nominally responsible for purchasing all oil, but it is likely to work closely with major oil and marketing corporations.

It is worth noting that several major South African companies have established substantial investments in areas that are useful in procuring petroleum supplies. The Anglo American Corporation, for instance, owns a 28 per cent interest in Phibro-Salomon Inc, the world's largest trader on the oil spot market.⁸² And Freight services, another South African company, has established an elaborate network of front companies that could be used to purchase oil.⁸³

Once the crude oil is transported to South African soil, the Government seals the petroleum to oil companies operating in South Africa. Eighty-five per cent of the South African oil products market is controlled by five international oil companies - Shell, BP, Caltex, Mobil and Total. Shell and BP have approximately

⁷⁹ NARMIC, *op. cit.*, p.7.

⁸⁰ *Petroleum Economist*, March 1982.

⁸¹ *Ibid.*

⁸² Kaplan, Ruth, *Anglo-American Corporation of South Africa Ltd.: Investments in North America*, Africa Fund, New York, 1982.

⁸³ *The Guardian*, London, 27 March 1984.

18 percent shares each of the market, while Caltex (Standard Oil of California and Texaco) control 20 per cent of the market, Mobil has an 18 percent share and Total a 10 per cent share.⁸⁴

The American oil companies control almost 40 per cent of the South African petroleum supplies market and supply oil and oil products to industry, the Government, and also to Namibia. These companies openly acknowledge providing petroleum products to the South African military and police.⁸⁵

Realizing its dependence on imported oil, the South African Government has, since the 1950s, been attempting to reduce its dependence on liquid petroleum. These efforts took on a greater urgency in the 1970s, when most OPEC countries began the oil embargo, and especially after 1979, when Iran stopped supplying oil to South Africa. The South African Government has instituted a massive industrial project to use its abundant coal supplies to produce liquid petroleum.

It is in this area of developing alternative fuels that American companies have played an especially important role. The United States Fluor Corporation has a billion dollar agreement to be the managing contractor for two of the three Sasol oil-from-coal projects.⁸⁶ Fluor has been supplying management technology for the Sasol projects for many years and, recognizing the critical role that Fluor plays in these projects, the South African Government recently forced the American company to establish a South African subsidiary.

Fluor is also playing an important role in another energy programme. South Africa announced earlier this year that Fluor South Africa will share with the French firm Framatome the contract for maintenance of South Africa's first nuclear energy electricity generating plant at Koeberg.⁸⁷ As reported in the section on Nuclear collaboration, American firms were instrumental in the development of South Africa's nuclear programme, and the current Koeberg facility is being supplied by a range of American-owned companies, including Mobil, which is the exclusive supplier of lubricants for the nuclear facility.⁸⁸

American transnational corporations are involved in nearly every aspect of the South African energy sector. And American corporations form an important part of the transportation, data processing and heavy machinery sectors of the South African economy as well. This involvement is in addition to the important

⁸⁴ *Petroleum Economist*, March 1982.

⁸⁵ Mobil Corporation, Proxy Statement, 1981.

⁸⁶ *Flour: Building Energy Self-Sufficiency in South Africa*, The Africa Fund, New York, 1981.

⁸⁷ *Pretoria News*, 12 December 1983, cited in *ANC Press Clips*, 1 January 1984.

⁸⁸ *Financial Mail*, Johannesburg, Energy Supplement, 5 March 1982.

role that American banks have played in providing capital for the development of the South African economy.

Opposition to United States Involvement

The critical role of United States financial interests in South Africa has provoked a strong outcry from non-governmental organizations (NGOs) within the United States. American NGOs have, for the past twenty years, been waging a campaign to end American economic collaboration with South Africa. This campaign has included boycotts of banks that make loans to South Africa and campaigns to force educational institutions and churches to withdraw their investments from corporations investing in South Africa. Most recently, a campaign at the state and local governmental level called for legislation preventing these governmental bodies from investing their funds in corporations with investments in South Africa. The American Committee on Africa has calculated that over \$365 million is scheduled to be divested by state and local governments under legislation that has already been passed, and a number of other states are considering legislation that could result in substantial additional divestments.⁸⁹

The United States Congress is also now considering legislation that, if passed in its entirety, would prevent new American corporate investments in South Africa, ban future American bank loans, and prevent the sale of South African Krugers in the United States.⁹⁰

These actions have been effective in raising the cost of the United States corporate presence in South Africa, but have not gone unchallenged. United States corporations argue that corporate investment in South Africa can be a force for positive change, and that continuing corporate involvement will actually help to eradicate apartheid. "United States companies work hard to change the character of South African society," said a recent letter from the American Chamber of Commerce in South Africa that was sent out to members of Congress.⁹¹

Government Encouragement of Trade and Investment

⁸⁹ *Divesting from Apartheid: A Summary of State and Municipal Legislative Action on South Africa*, American Committee on Africa, 1983.

⁹⁰ *Washington Notes on Africa*, Fall 1983.

⁹¹ Letter from Clark M. Effe, Executive Director, American Chamber of Commerce, to American Legislators, 6 February 1984.

The United States Government has also become a more vocal advocate of United States corporate involvement in South Africa. In the past, the United States Government's official position has been that it neither "encourages nor discourages" American corporate investment in South Africa.⁹² But in a sharp break with earlier Administrations, the Reagan Administration has sought to actively encourage continued United States investment in South Africa. "[American] firms have a great deal to do with defining the role and the nature of American influence in South Africa," Secretary of State George Shultz told a group of businessmen in late March 1984.⁹³ And Assistant Secretary of State for Africa, Chester Crocker, told an audience last November that "American firms are playing and can continue to play a role in bringing about constructive change [in South Africa]." Crocker also said that "Economic growth supported by foreign investment is, therefore, essential to the creation of opportunity for black South Africans."⁹⁴ In another concrete manifestation of this policy, the Commerce Department last year opened a seven-person trade promotion office in South Africa. United States officials insisted that the move was purely a commercial decision, but others were not convinced, and one South African newspaper headlined a story about the new offices: "U.S. DEFIES THE SANCTIONS LOBBY."⁹⁵

Supporters of sanctions and divestment are not persuaded by the arguments of the United States Government and the corporations. They point out that since 1960, American direct investment in South Africa has increased four-fold. In that same period, the general level of poverty and oppression against the black majority has also increased. Since 1960, the South African Government has forcibly removed more than 3.5 million people to barren rural areas known as bantustans. According to a new, two-year study funded by the Carnegie Foundation, there has been "a radical increase in impoverishment among South Africa's black majority, despite improvements in some black living standards."⁹⁶ The harsh reality is that twenty-four years of substantially increasing United States investment, far from producing positive change, has served to further bolster a government which continues to oppress over eighty per cent of its population.

⁹² Testimony of Harold B. Scott, Deputy Assistant Secretary of State and Director, Bureau of International Commerce, Department of Commerce, before House Subcommittee on Africa, Committee on Foreign Relations, 15 June 1971.

⁹³ Remarks by George P. Shultz, Secretary of State, at the luncheon for Chief Executive Officers of United States Firms in South Africa at Blair House, Washington, D.C., 29 March 1984.

⁹⁴ "Reagan Administration's Africa Policy: A Progress Report," Statement by Chester A. Crocker, Assistant Secretary for African Affairs, before the Fourth Annual Conference on International Affairs, University of Kansas, Lawrence, Kansas, 10 November 1983.

⁹⁵ *Sunday Express*, Johannesburg, 2 October 1983.

⁹⁶ *New York Times*, 22 April 1984.

Other forms of Economic Collaboration

American commercial links with South Africa go beyond purely financial ties. South African Airways makes five weekly flights to the United States, four to New York City and one to Houston, Texas.⁹⁷ In an attempt to break out of its international isolation, South Africa has consistently sought to expand airline routes to American cities. American NGOs have worked hard to block further expansions of airlinks with South Africa. When South African Airways announced that it was applying for permission to fly into Houston last year, a coalition of church, student and community groups joined with Congressman Mickey Leland to fight the new air route. The coalition organized a letter writing campaign, pickets and other efforts to block South African Airways. Although protesters failed to prevent South African Airways flights to Texas, the company has said that as a result of the difficulties it encountered in winning the Houston route, the airline will not be seeking additional United States routes for some time.

Shipping

Commercial links with South Africa are also maintained through extensive shipping ties between South Africa and the United States. The South African parastatal corporation Safmarine reports that it serves eleven American ports, including New York, Philadelphia, Baltimore, Charleston, Newport News, Savannah, Norfolk, Jacksonville, Houston, Baton Rouge and New Orleans.⁹⁸ South African companies have set up elaborate networks of dummy companies and freight forwarding firms to defeat any efforts to enforce sanctions against South Africa.⁹⁹ One concrete example of the types of shipping links that exist between the United States and South Africa was revealed last February, when a ship carrying uranium from South Africa spilled part of its cargo as it was preparing to dock and unload in the port of Baltimore. The uranium spill was relatively small and was contained, but the accident publicized the fact that South African uranium is being imported to the United States for further processing and the publicity led to a number of local NGOs organizing pickets to protest the South African presence.¹⁰⁰

⁹⁷ *Southern Africa*, New York, January-February 1983.

⁹⁸ Safmarine Annual Report, 1982.

⁹⁹ *The Guardian*, London, 27 March 1984.

¹⁰⁰ *Southern Africa*, New York, March 1983.

Tourism

The South African Government also seeks to encourage commercial links between South Africa and the United States by promoting tourism. Over one million tourists visit South Africa each year and between 6 and 8 per cent of these people are Americans. In September of last year alone, 5,263 people from the United States visited South Africa.¹⁰¹

¹⁰¹ Central Statistical Services, Pretoria. Statistical News Release, 31 January 1984, p.7.